TOWARDS 2010 AND BEYOND

A study of South Africa's emerging small, medium and micro tourism enterprises

HIGHLIGHTS

environment & tourism
Department: Environmental Affairs and Tourism
REPUBLIC OF SOUTH AFRICA
TEP
BUSINESS TRUST
Together, we make a difference.
Tourism Enterprise Partnership

ABOUT THE TOURISM ENTERPRISE PARTNERSHIP

TEP is a public–private partnership between the Department of Environmental Affairs and Tourism (DEAT) and the Business Trust. It seeks to facilitate the growth and development of SMMEs active in the tourism industry, thus maximising their potential to generate income and create new jobs. It does so by helping SMMEs to identify business opportunities and equip themselves to take advantage of those opportunities.

TEP began in 2000 as the Tourism Enterprise Programme, a four-year programme developed by the Business Trust for creating jobs in the tourism industry. It was then extended with additional funding from the Business Trust and DEAT.

Given its success, and in the interests of ensuring the sustainability of enterprise development, it was decided to institutionalise the programme. On 1 April 2008 TEP became a Section 21 (not for profit) company, renamed the Tourism Enterprise Partnership.

Published by the Tourism Enterprise Partnership
53 Central Street, Houghton
Johannesburg, South Africa
P O Box 1650, Houghton 2041
Tel 011 718 2000
Fax 011 483 0049
info@tep.co.za
www.tep.co.za
TEP's provincial offices are listed on its website.

Based on research reports by MarkData & Associates
8 Marais Street, Bailey's Muckleneuk
Pretoria, South Africa
P O Box 13568, Hatfield 0028
Tel +27 (0)12 460 3858
Fax +27 (0)12 460 1078
markdata@iafrica.com
www.markdata.co.za

ISBN 978-0-9814245-1-4

Edited and produced by Acumen Publishing Solutions, Johannesburg
Printed by The Bureau, Johannesburg

BACKGROUND

Tourism has become an increasingly valuable sector of the South African economy,[1] and is expected to continue growing over the next decade. As a result, both the government and the corporate sector regard it as an important vehicle for boosting the growth of small, medium and micro enterprises (SMMEs), particularly those run by previously disadvantaged individuals (PDIs). These opportunities are enhanced by the massively increased tourist flows expected during the 2010 FIFA World Cup South Africa™ and its aftermath.

However, the South African tourism industry is exposed to increasing global competition. It is also a complex service sector, requiring high levels of skills and resources. As a result, extending the growth of the sector and its rewards to emerging SMMEs presents major developmental challenges.

ABOUT THIS PROJECT

Against this background, the Tourism Enterprise Partnership (TEP) commissioned MarkData & Associates to conduct a major study of emerging small, micro, and medium-sized enterprises (SMMEs) active in tourism. Its goals have been to:

- identify emerging tourism SMMEs in 2010 World Cup™ Host Cities and Satellite Areas as well as Global Competitiveness Project (GCP) regions;
- record and analyse their activities;
- identify those capable, with assistance, of providing tourism goods and services for the 2010 World Cup™ and beyond; and
- recommend appropriate support and development strategies.

To this end, MarkData interviewed stakeholders in tourism throughout the country, and conducted extensive surveys of emerging SMMEs in Host Cities, Satellite Areas and GCP regions in all nine provinces.

The findings were presented to a workshop of experts from across the country, and their contributions were used to refine the recommendations emanating from this study. The outputs are:

- a Highlights Report (the current report), which presents the main findings and recommendations in a more compact format;
- a National Report, which reports on and analyses the survey data from a national perspective, recommends a strategy for selecting SMMEs suitable for development assistance, and recommends broad principles for assistance;
- eight Provincial Reports, which convey and analyse the results of the provincial surveys (the survey results from the Northern Cape and Free State were combined in one report as they share one Host City, namely Bloemfontein); and
- an intervention database with guidelines for assistance for each enterprise.

SMMES SELECTED FOR THIS STUDY

For the purposes of this study, emerging SMMEs were defined as middle- and lower-level enterprises, both formal and informal, with turnovers of less than

1 Tourism is not a formal economic sector but a cross-sectoral classification; however, for the sake of brevity, it will be described as a sector in this report.

R25 million a year, and earning at least 25% of their revenue from tourism. A premium was placed on identifying Historically Disadvantaged Enterprises (HDEs).

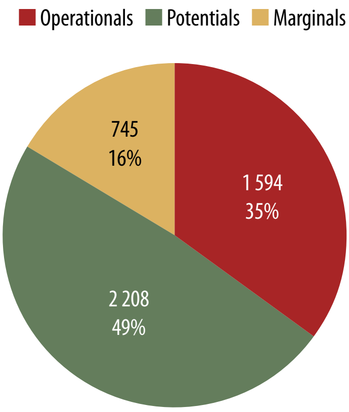
Many more than 5 000 enterprises were identified. Purely survivalist enterprises were filtered out in the field. Following intensive interviews and careful statistical analysis, the remaining 4 547 SMMEs were divided into:

- **Operationals** – viable enterprises ready to provide goods and services for 2010 and beyond;
- **Potentials** – viable enterprises which are not ready to provide products for 2010, but, given appropriate assistance, have the potential to do so; and
- **Marginals** – enterprises on the margins of viability with no prospect of becoming meaningful service providers for 2010.

Operationals and Potentials were included in an intervention database. While Marginals form part of the dataset for this study, they were not included in the intervention database. The study focuses largely on Operationals and Potentials. However, where this adds to an understanding of the emerging SMME sector, Marginals are included in the analysis.

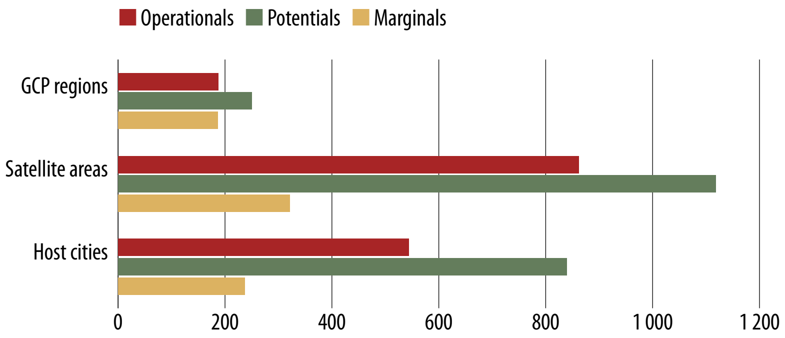
BASIC FEATURES

Enterprises in the sample



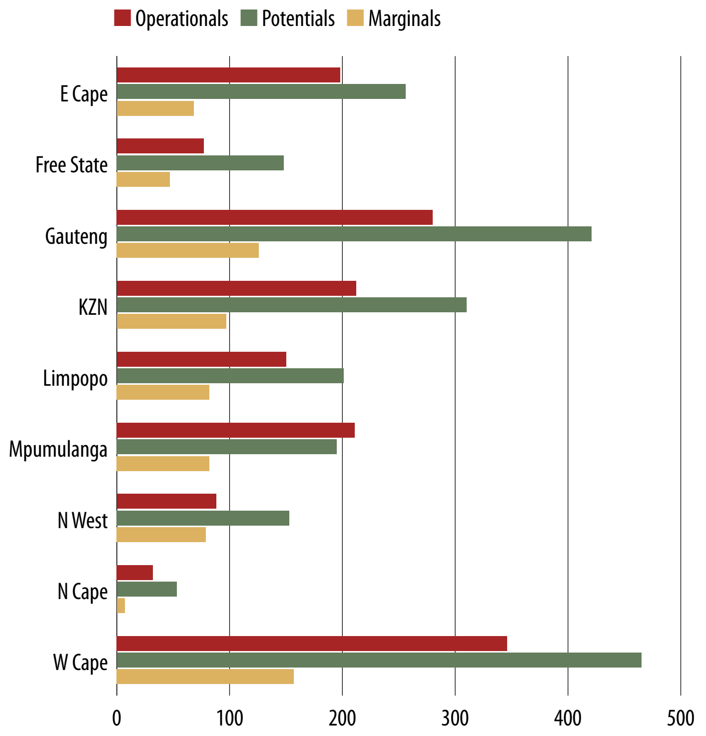
Potentials significantly outnumber enterprises in both other categories, thereby presenting development agencies with a substantive development challenge.

Distribution among target areas



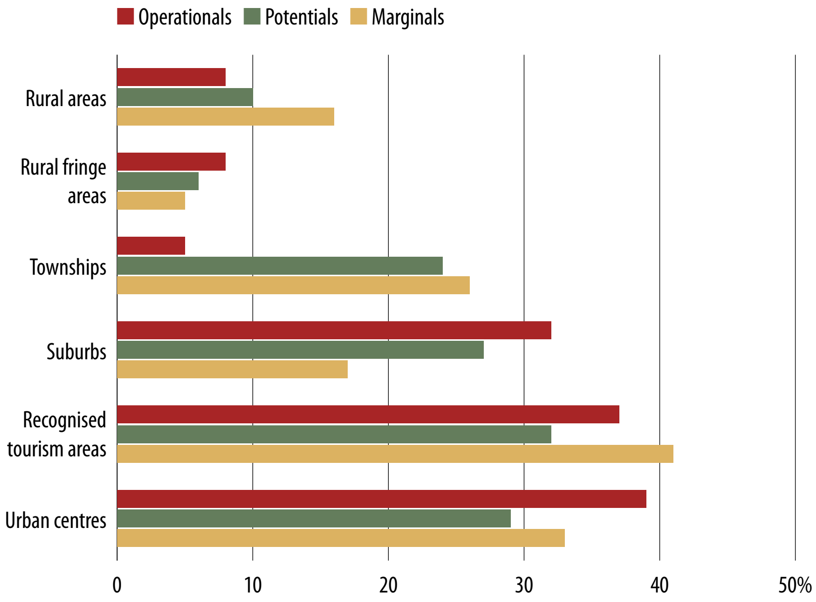
Minimum targets were set for identifying emerging tourism enterprises in each province. However, the distribution of SMMEs in subsectors was not predetermined, and the sample thus accurately represents the situation on the ground. As such, the distribution in the various target areas and regions reflected in this table is also accurate. It shows that most enterprises in the sample are active in Satellite Areas rather than Host Cities, reflecting their activities in townships and other more peripheral areas.

Provincial distribution



Emerging SMMEs in the Western Cape and Gauteng significantly outnumber those in any other province, followed by KwaZulu-Natal and the Eastern Cape.

Distribution among types of areas



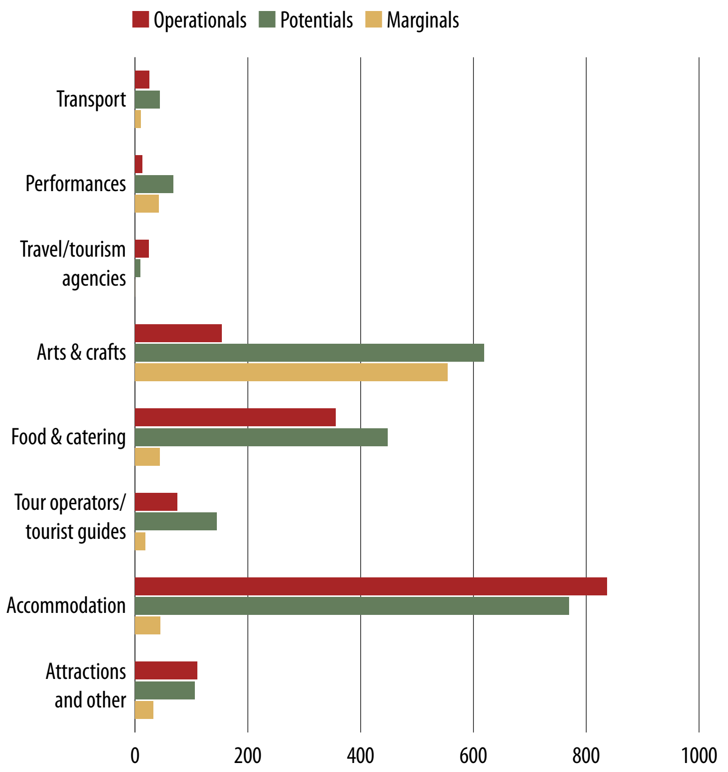
Notes: Percentages exceed 100% because of multiple mentions. In this and other graphs, percentages are calculated separately in each category.

Townships were emphasised in the selection process, which has a bearing on the proportions reflected in this table. However, it still shows that most emerging tourism SMMEs operate in urban centres and recognised tourism areas. Although townships attract niche tourists, enterprises operating in them are out of the mainstream, which constrains their development. Moreover, a greater proportion of Operationals in the sample operate in areas where most tourism spend takes place. The effects of location are difficult to overcome, but some township sites and features have significant tourism potential.

GOODS AND SERVICES

The 4 547 enterprises whose activities were recorded offered some 6 660 attractions and activities, covering both mainstream and niche operations.

Main activities (subsectors)

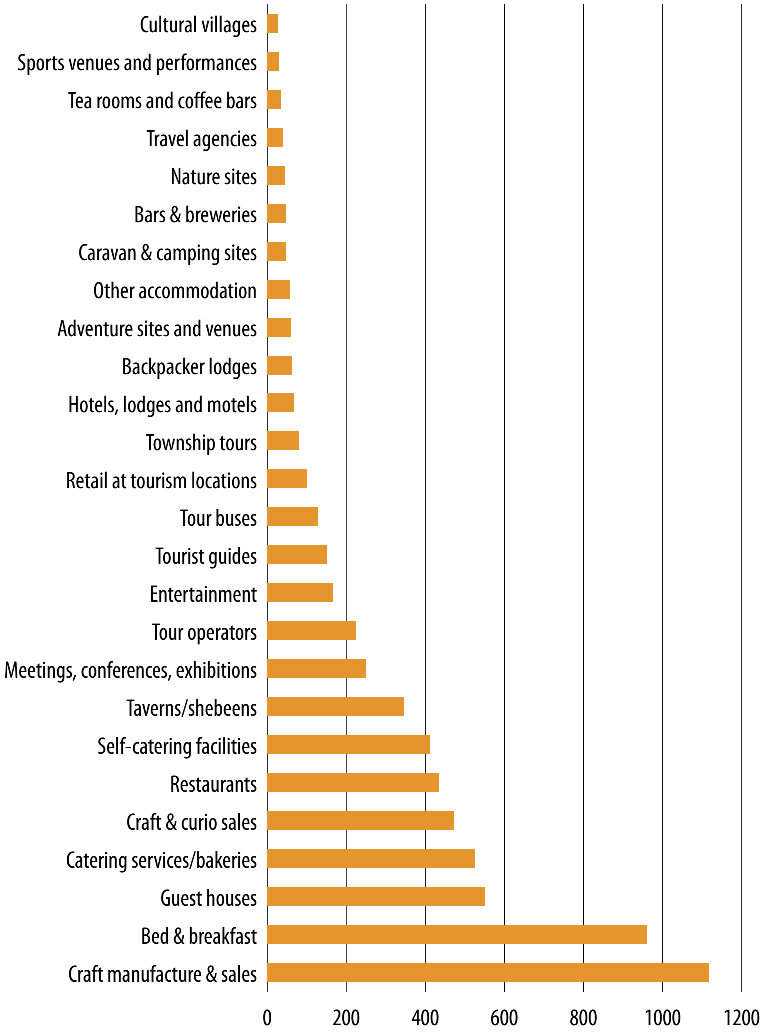


Emerging tourism enterprises were found to be particularly active in three subsectors – accommodation, arts and crafts, and food and beverage – and far less active in others. Therefore, there is great scope for new enterprises in these subsectors, although cost and regulatory barriers to entry are significant.

The lack of emergent travel or tourism agencies is a particularly significant shortcoming, as they could do a great deal to generate more business and improve market access for the emerging sector as a whole.

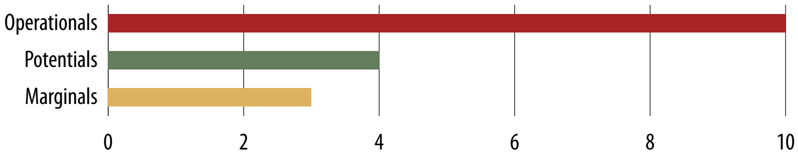
The figure also shows that, despite their greater success and viability, Operationals on their own are not providing the variety demanded by tourists, and that Potentials (and even some Marginals) significantly broaden the spectrum of tourism goods and services.

Range of goods and services offered (top 25)



Notwithstanding the weaker subsectors, emerging enterprises offer an impressive range of tourism goods and services. This provides a sound foundation for development and assistance.

Average employment



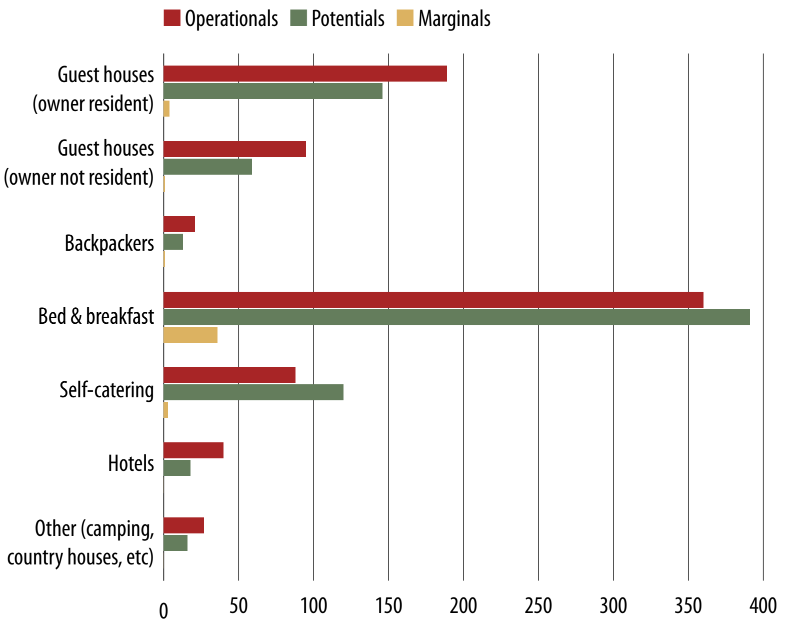
The SMMEs in the sample provide employment for about 27 000 people – an average of only six each. However, their activities provide far more indirect employment. As could be expected, Operationals provide the most full-time employment, followed by Potentials and Marginals.

MORE ABOUT SUBSECTORS

Accommodation

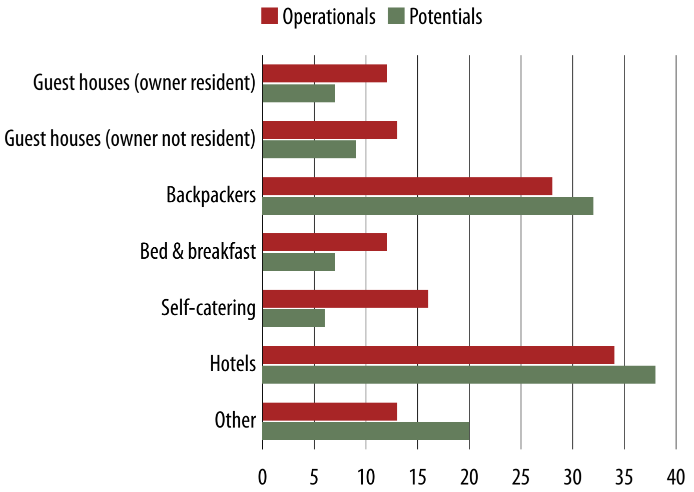
This is the most populated subsector among emerging SMMEs.

Types of accommodation



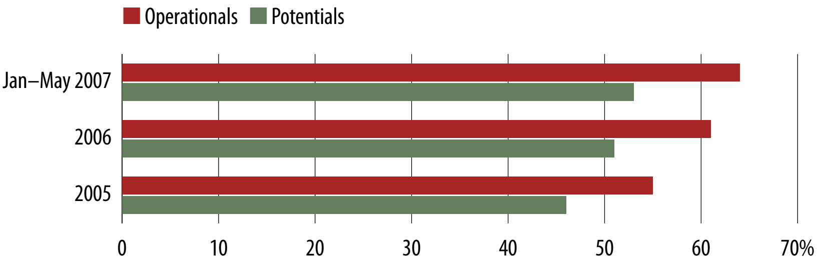
Emerging SMMEs contribute significantly to tourist accommodation. Bed and breakfast establishments are the main points of entry to the subsector. The small number of hotels reflects the fact that hotels tend to be established operations.

Rooms provided (average)



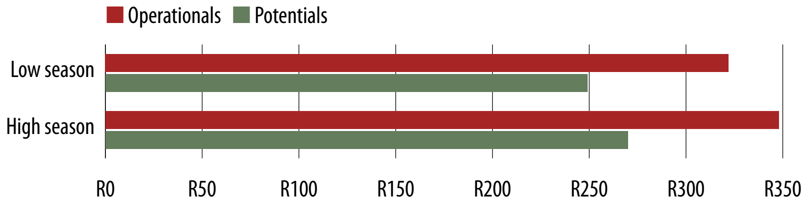
Accommodation establishments run by emerging enterprises are generally modest in size, but contribute a total of more than 12 000 rooms, which is not insignificant. This complements the capacity of the established hospitality sector, and could play an important role during the 2010 World Cup™.

Occupancy rates



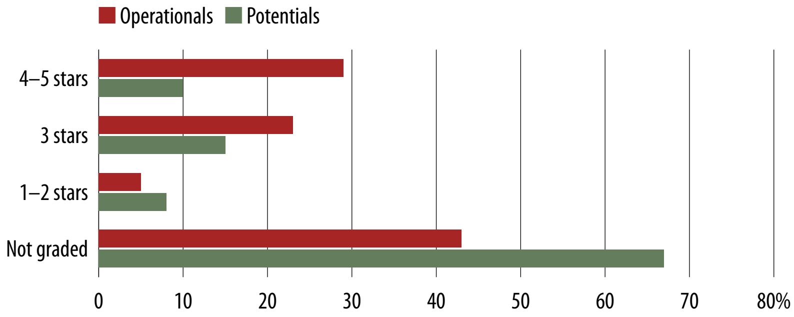
Emerging accommodation establishments have enjoyed healthy occupancy rates over the past two to three years, which have also risen over time. As a result, room rates of Potential establishments are only slightly lower than those of Operational establishments.

Average room rates



Note: Rate per person per room, single or sharing. High season refers to periods during school holidays, and low season to periods outside school holidays.

Star gradings



Note: These are star gradings awarded by the Tourism Grading Council of South Africa (TGCSA).

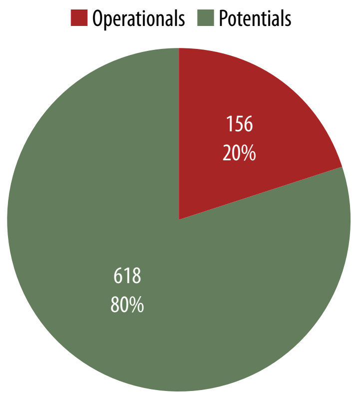
This figure shows that a large proportion of emerging accommodation establishments are ungraded. This presents an urgent challenge in respect of the 2010 World Cup™: MATCH, the FIFA agency managing accommodation and other services for 2010, requires all establishments on its database to be graded, and the TGCSA will not grade establishments run by informal (ie unregistered) enterprises. This means that all emerging accommodation enterprises that want to benefit from the formal 2010 booking and payment system have to be registered as business entities as well as graded.

In general, though, SMMEs active in this subsector contribute meaningfully to tourist accommodation, and are viable in terms of market penetration. As more are graded by the TGCSA, their contribution to the subsector will expand.

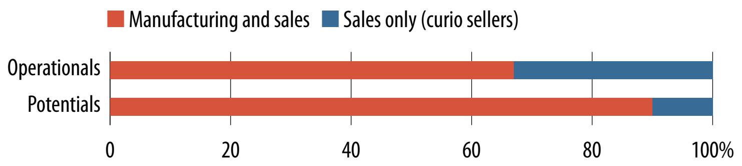
Arts and crafts

This is the second most populated subsector among emerging SMMEs. These are the least developed SMMEs in business terms; however, crafters tend to be highly committed entrepreneurs, and add significant value to tourism products.

Craft operators

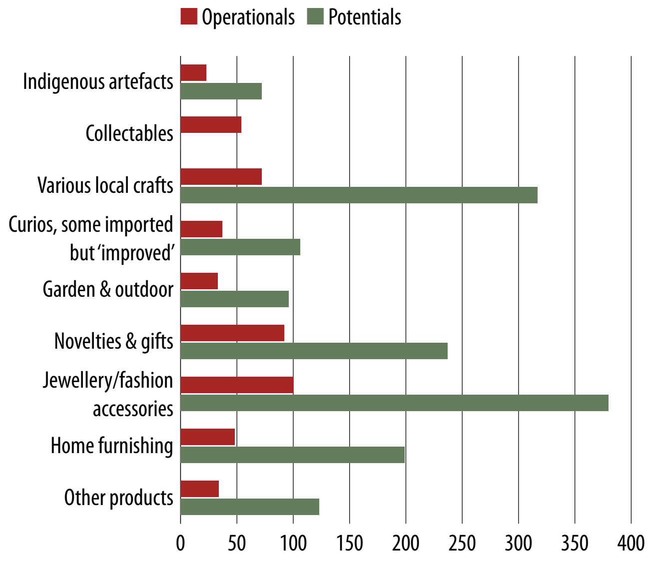


Types of craft operations



As could be expected, there are far more Potentials active in this subsector than Operationals. Similarly, Potentials are weighted towards manufacturing, and Operationals towards sales.

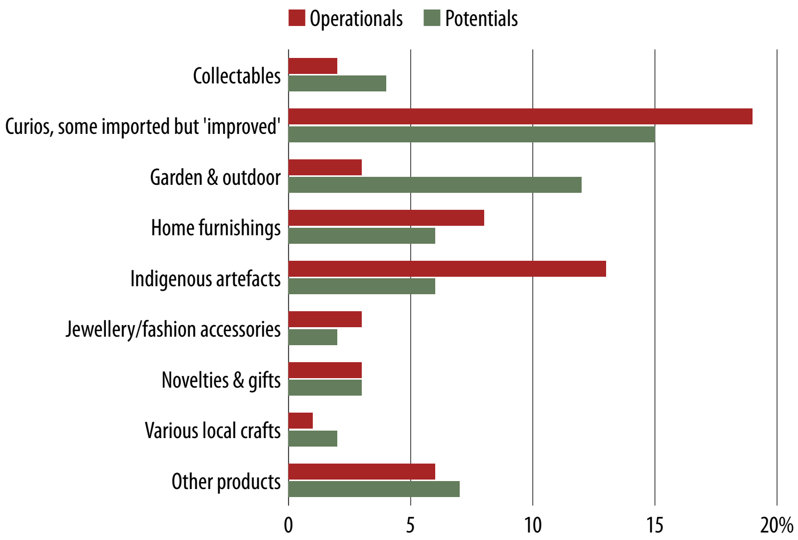
Types of crafts sold



Notes: 'Other' includes beadwork, leather products, woven baskets and bowls, wire products, ceramic products, paintings, wooden bowls, textiles and garments, shoes and sandals, sculptures, and glass blowing. Indigenous artefacts are traditional utility or religious items.

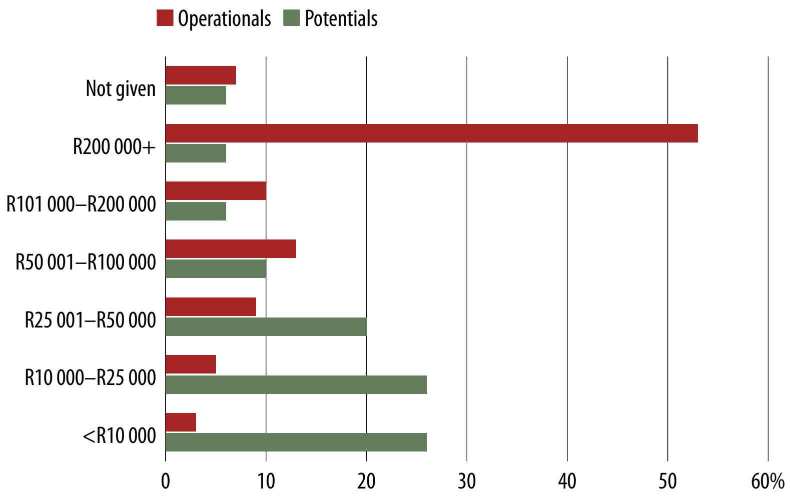
This figure shows that enterprises in this subsector offer a wide range of products, but that many of the more interesting items (in the 'other' category) are made in lower volumes. Remaining gaps in the product range point to a challenge of product development. Stakeholders believe the challenge in this subsector is to improve the quality of products, and create the skills to do so.

Proportion of crafts imported

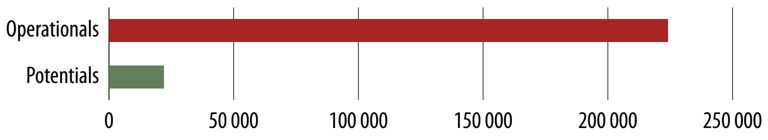


As this figure underlines, the biggest threat to this subsector is the profusion of artefacts imported from other African countries, and fake copies of those articles. The solution is not to bar these goods but to improve the quality and variety of local products.

Average annual turnovers



Median annual turnovers (rands)

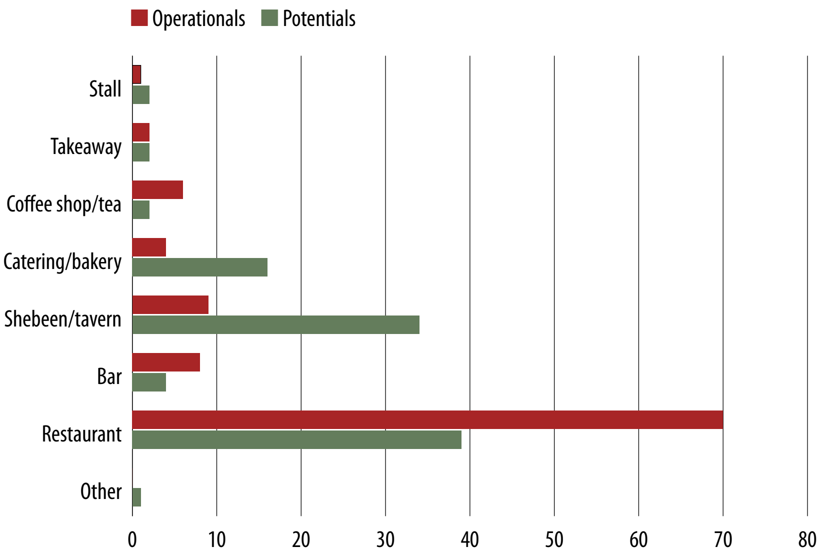


These figures highlight the small size and limited range of most craft enterprises, and the massive gap between Operationals and Potentials. The sales volumes of at least half the Potentials are so small that simply acquiring materials and replacing tools is a major challenge. Some Operationals achieve meaningful sales volumes, but these are associated with expensive premises in major tourism zones. Many crafters are very dedicated, however, and sell on the streets if they cannot find better outlets. This provides a solid foundation for development initiatives.

Food and beverage

This is the third most populated subsector among emerging SMMEs.

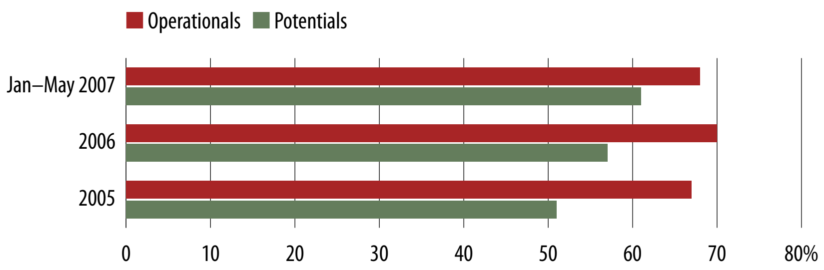
Types of food and beverages establishments



As could be expected, most restaurants are run by Operationals, and most shebeens or taverns by Potentials. This is because restaurants are more difficult and expensive to establish and run than shebeens, which are often partly supported by liquor distributors. There are far more shebeens than the figure reflects, but most are informal survivalist operations excluded from this study.

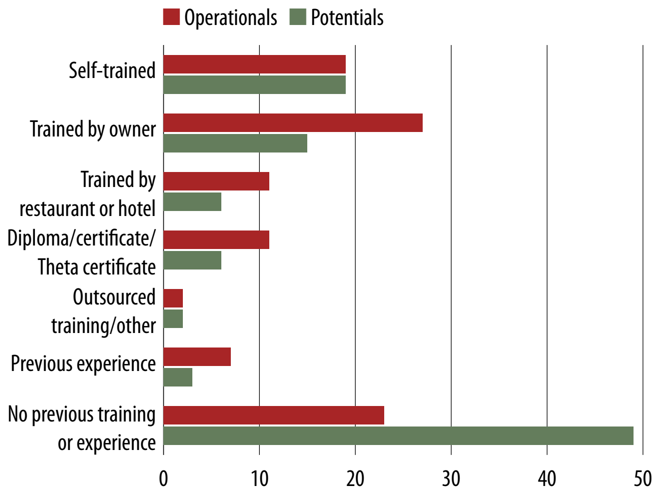
The facilities covered have an average seating capacity of 118 for Operationals, and 59 for Potentials.

Seat cover at peak times



This figure shows that both Potentials and Operationals enjoy relatively high levels of seat cover (occupancy). However, seat cover for Potentials has increased over time, while that for Operationals seems to be more or less static.

Training of main cook or chef

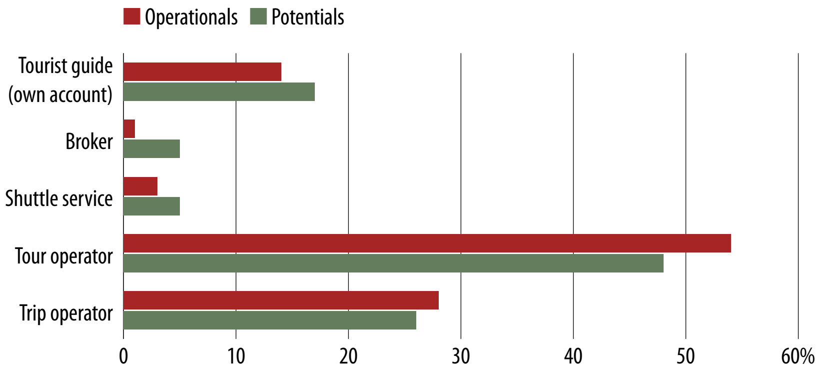


This figure shows up significant differences between Potentials and Operationals; higher proportions of Potentials do not even claim that this key person has received any training, or has any prior experience.

Tour operators and tourist guides

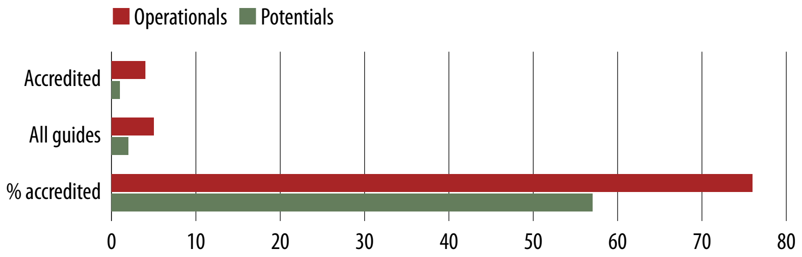
Tour operators need to buy and maintain expensive vehicles, and successful operators tend to be established enterprises patronised by large travel agencies. Therefore, the significant numbers of emerging tour operators are a notable achievement.

Types of tour operators



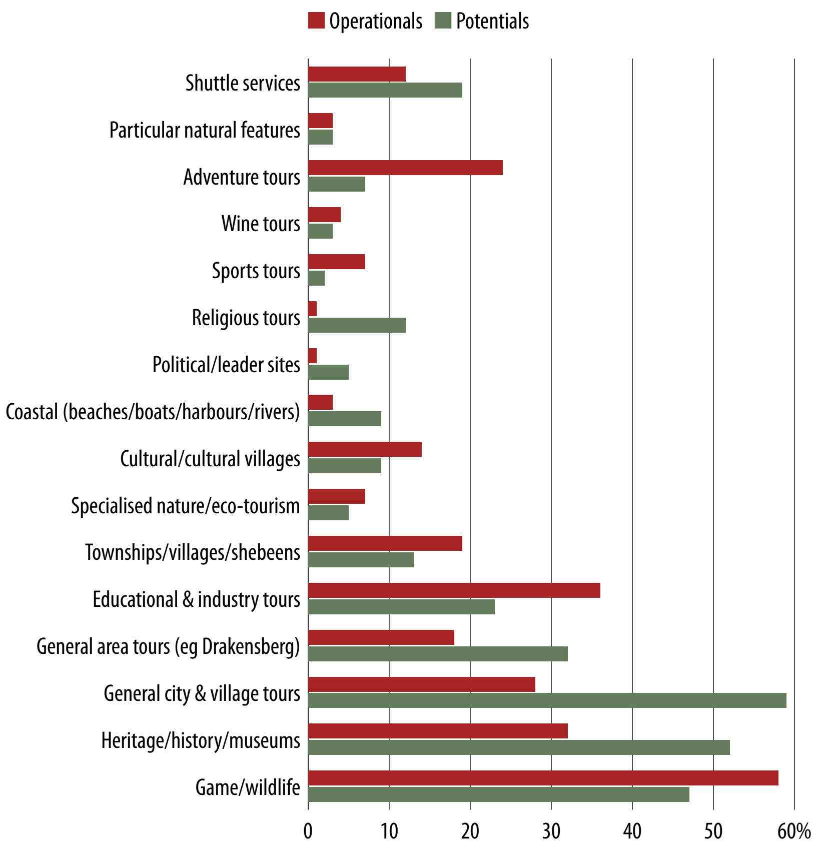
Note: Trip operators offer short single trips; tour operators offer longer tours.

Tourist guides employed (average)



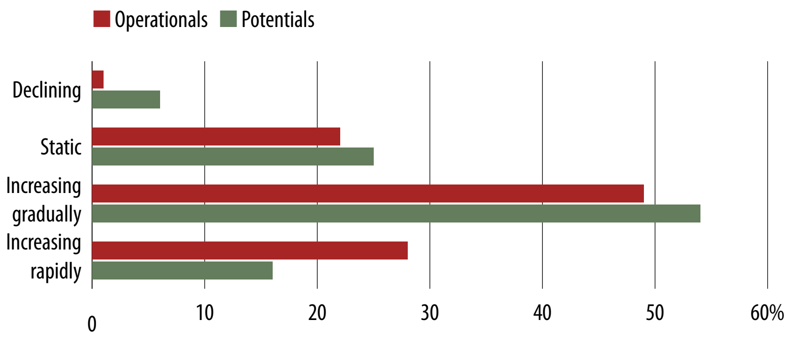
The small numbers reflected in this figure reflect the fact that most guides operate within the established tourism networks. However, more than half of emerging tourist guides are accredited by DEAT and provincial tourism authorities.

Most popular products



This figure shows that both categories of emerging enterprises offer a wide range of tours. Potentials tend to specialise in certain niche areas such as religious and heritage tours, while Operationals concentrate on attractions with wider appeal, such as game parks and adventure tours. Potentials play a valuable role in providing access to important niche attractions such as political sites.

Trends in demand for services

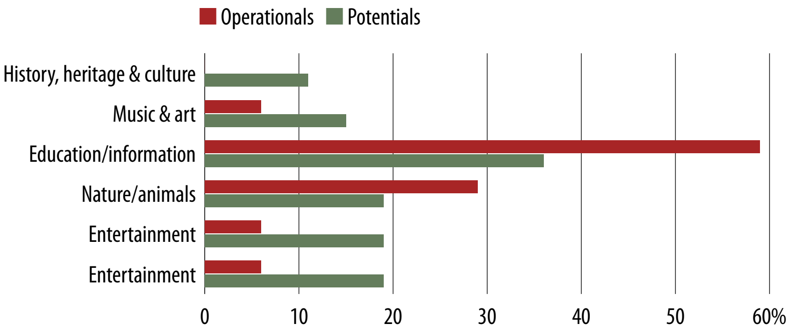


This figure shows steady growth in demand for services of most Operationals and Potentials; however, there is a significant static component as well, pointing towards problems surrounding market access.

Attractions

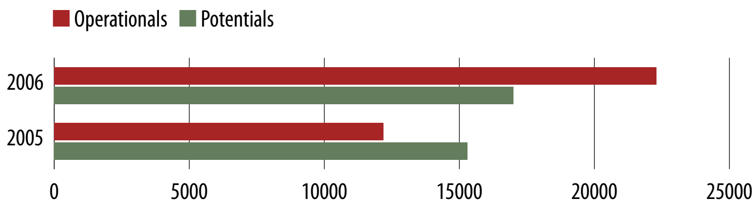
Activities in this subsector usually involve access to a pre-existing facility, feature or institution, or a regular performance or ritual, which places a limit on these products. As a result, only 44 enterprises in the survey sample are active in this subsector.

Attractions offered



Operationals tend to cover nature-based attractions with higher returns, while Potentials tend to cover niche interests such as music, art and history, heritage, and culture.

Visitors

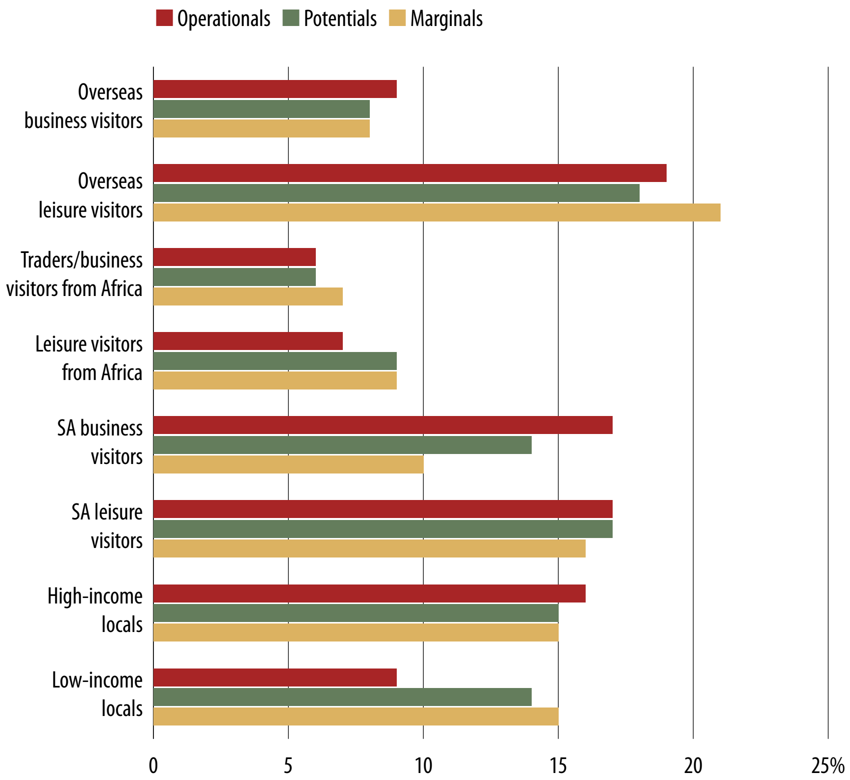


Notably, Potentials attract more or less the same numbers of visitors as Operationals. Visitor numbers have also increased in recent years. This may be because growing numbers of visitors prefer more innovative or unconventional products. Overall, then, while activities in this subsector may be limited, products offered by both Potentials and Operationals are very popular.

MARKETS AND MARKETING

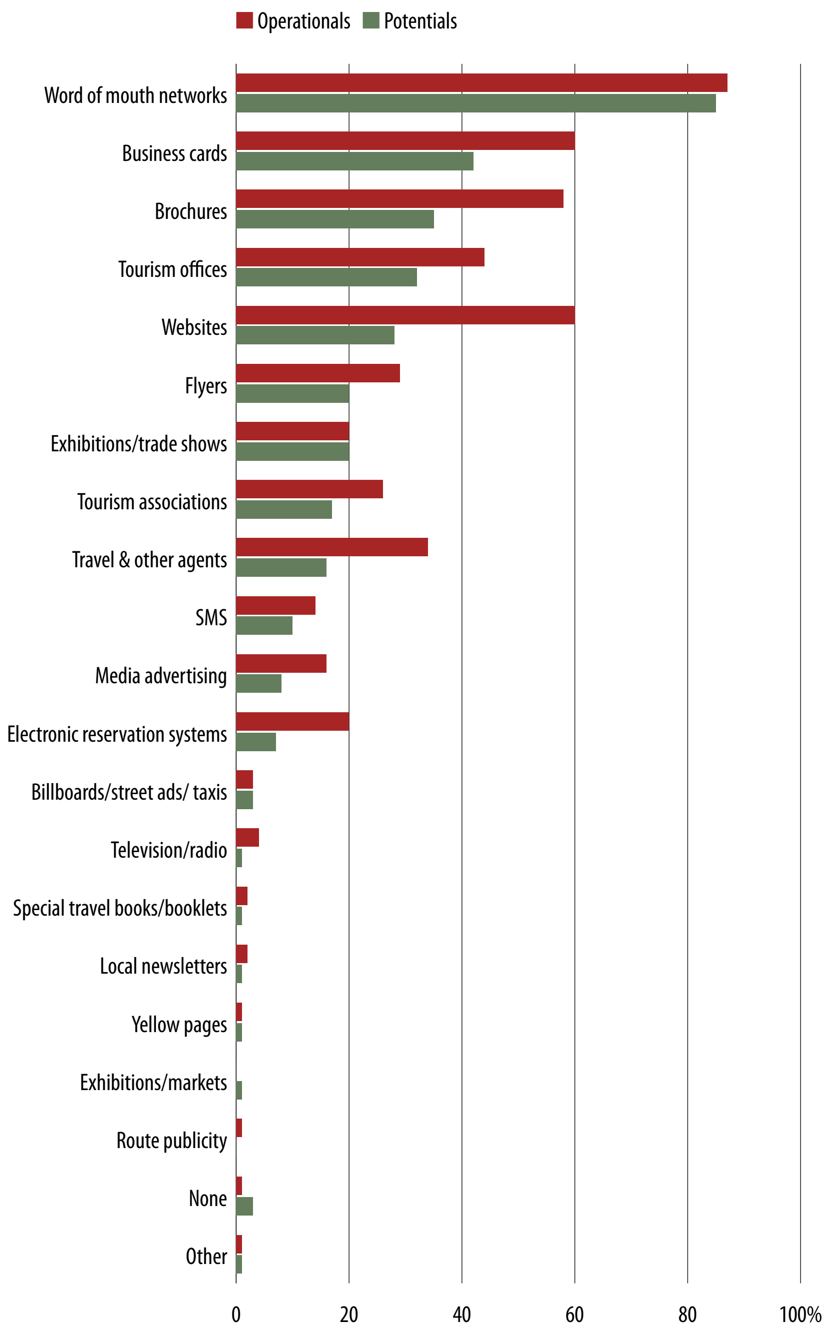
This section focuses on customer profiles, and how emerging SMMEs advertise and promote themselves. Marginals are also included in this analysis in order to provide additional insights into customer distribution.

Customer profile



The distribution of clientele is surprisingly uniform. Even Marginals are well exposed to local and foreign leisure visitors as well as local business visitors. Their problem is not their exposure, but rather the fact that they lack the resources to turn this exposure into profit. By and large, all three types of emerging tourism enterprises are penetrating healthy cross-sections of the tourism market.

Types of advertising, publicity and promotions

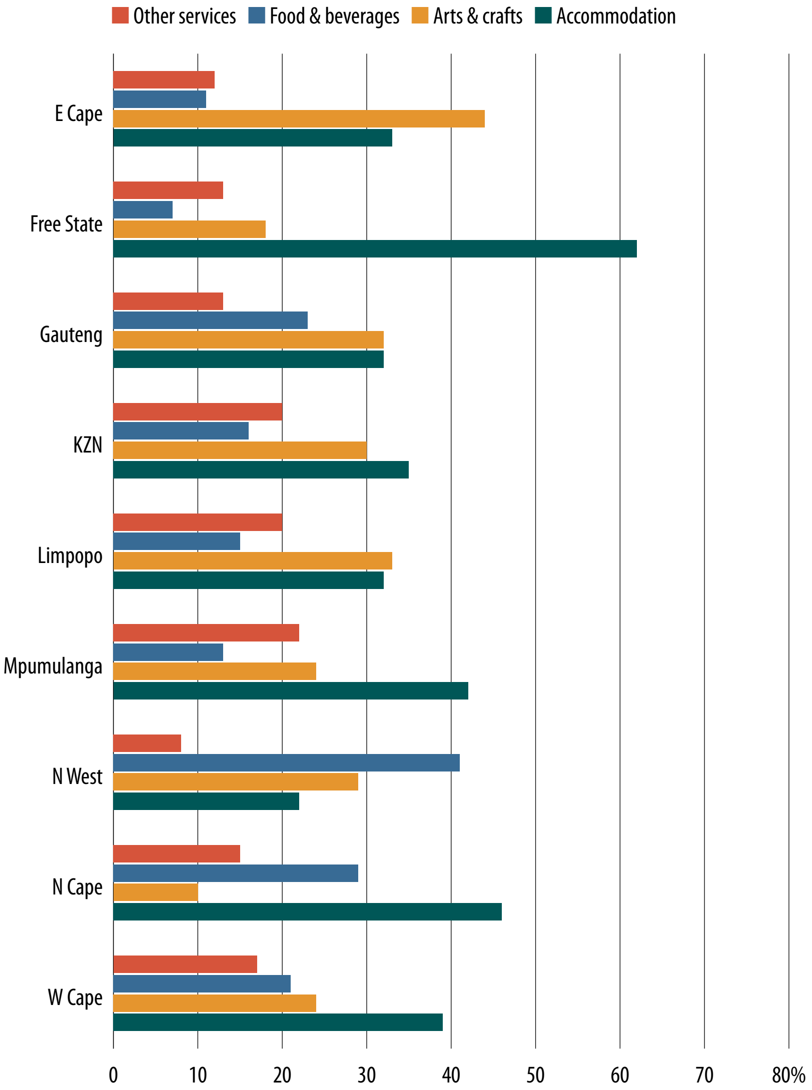


Here, differences between different types of enterprises begin to appear. While all or almost all emerging SMMEs make some attempt to advertise their services, Operationals clearly make more extensive use of more sophisticated forms of advertising and publicity.

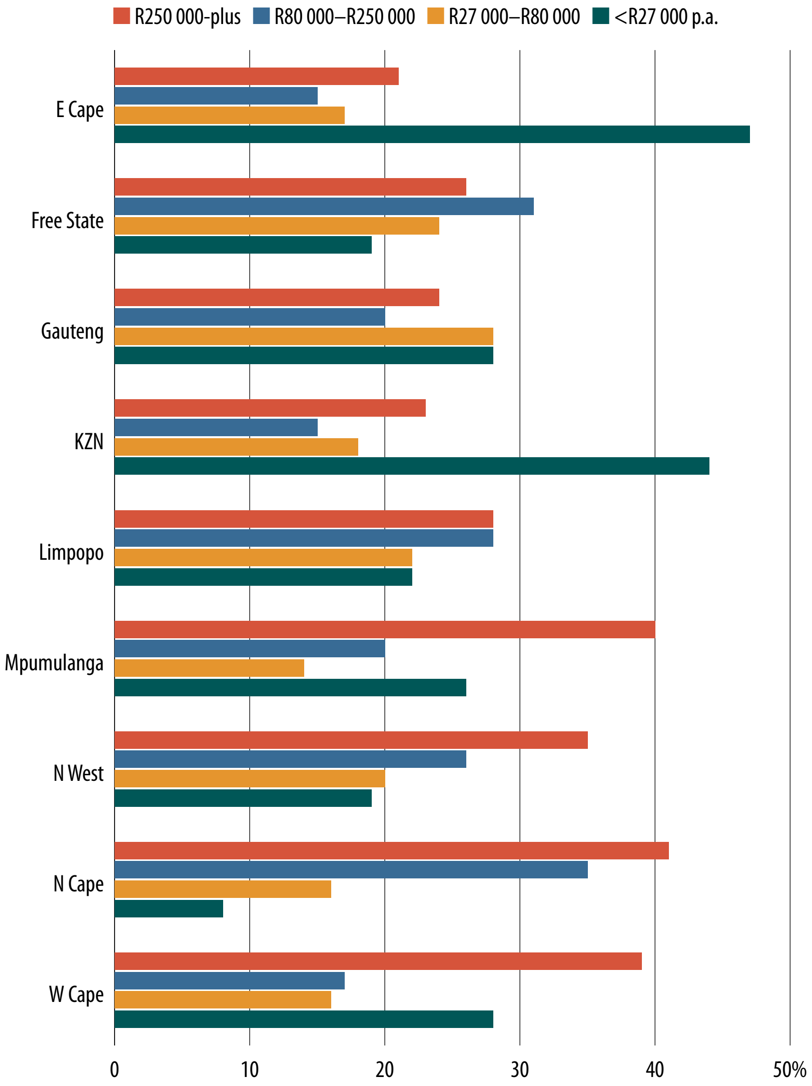
THE PROVINCIAL PICTURE

Comparisons among provinces provide further insights into the strengths and weaknesses of emerging tourism SMMEs.

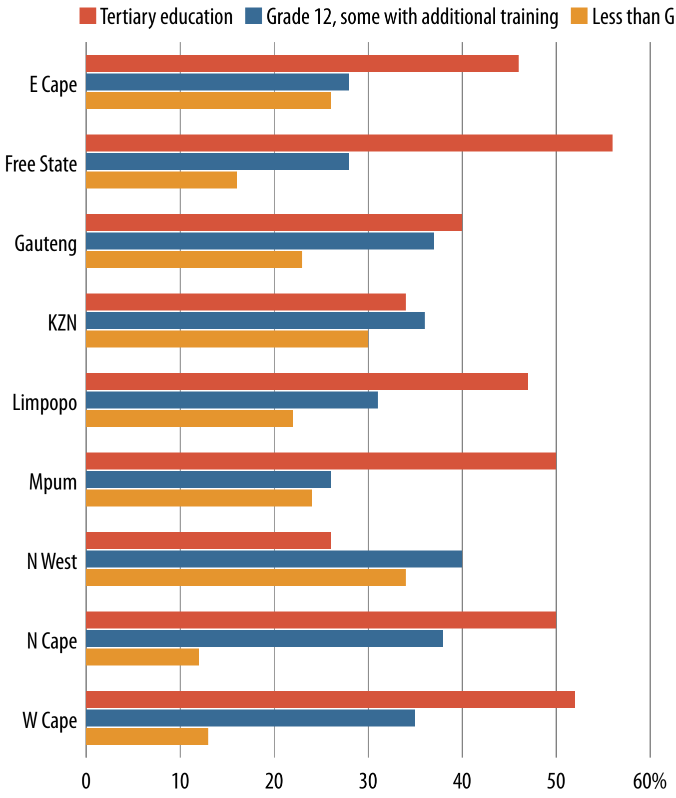
Main activities: variations among provinces



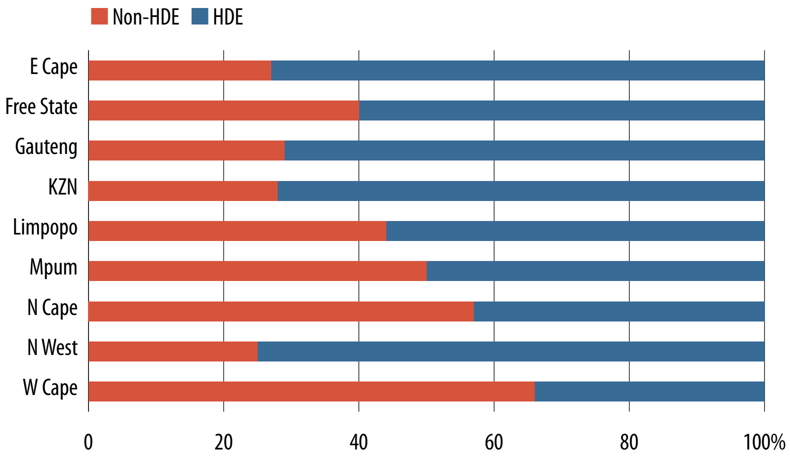
Annual turnovers in provinces



Levels of education of SMME owners in various provinces



HDE status by province



These figures illustrate the complex interaction among market factors, population composition, levels of SMME development, and the scope for emerging operations. Key factors in the various provinces are outlined below.

The **Western Cape** has a broad range of high-quality tourism products, a discerning market, and hence some prosperous emerging enterprises. There is relatively little room for small emerging operations.

KwaZulu-Natal has a large low-income population and has many micro tourism enterprises producing a range of products for a very large and not very well defined market of seaside visitors and visitors to mountain and game resorts.

Gauteng draws various kinds of tourists, many in transit, and therefore also harbours many small entrepreneurs working at near-marginal levels. Its tourism sector does not have a clear profile – rather, it comprises a fairly profitable mix of markets and enterprises.

The **Eastern Cape**, like KwaZulu-Natal, has a large pool of small and micro entrepreneurs. They are constrained by large numbers of established operations in seaside resort areas. There is considerable scope for crafts sales at a lower level, but only modest potential for the sustained growth of lower-level tourism enterprises.

North West has a complex tourism profile. On the one hand it receives many day trippers from neighbouring Gauteng, which creates a significant market for food and beverages as well as crafts. On the other, the development potential of smaller operations is constrained by the successful established sector spearheaded by Sun City and the large number of country resorts, private nature resorts, and game farms.

The emerging tourism sector in **Limpopo** is similarly constrained by more sophisticated and capital-intensive game lodges and resorts, and only some emerging operations are able to compete. Nonetheless, given its large volume of tourist traffic, it is offers fairly significant markets to lower-level operators, including crafters.

Mpumalanga has such a wealth of natural features and resources that it seems to offer abundant opportunities for all types of tourism enterprises. However, the products most in demand are game lodges, trout farms, and other expensive facilities, leaving only limited opportunities for lower-level operations and crafts.

The **Free State** has a poorly developed established tourism sector, which opens up opportunities for emerging accommodation enterprises in particular. While there is a large potential supply of micro operators, the market is weak, and, given that many educated people cannot find jobs in the formal economy, they face strong competition from relatively highly educated entrepreneurs.

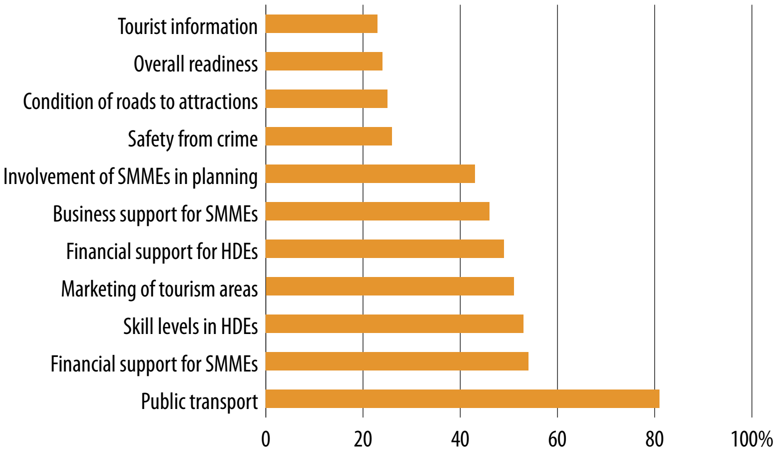
The **Northern Cape** does not offer much wildlife activity or local arts and crafts. However, coastal fishing villages, wild flowers, and semi-desert vistas offer fairly good opportunities for emerging accommodation and food and beverage establishments. While the tourism industry is still dominated by established enterprises, previously disadvantaged entrepreneurs are starting to utilise opportunities for entry.

Tourism enterprise development in all provinces requires a familiarity with local markets and local entrepreneurial talent. Bottom-up initiatives will be more effective than top-down targets and abstract development plans.

STAKEHOLDERS' VIEWS

Almost 500 stakeholders in tourism – including national, provincial and local officials and experts on tourism and SMME development – were interviewed in order to record their views about the growth of emerging tourism SMMEs and the climate for tourism growth and development in the various provinces. First, they were asked to give their perceptions of levels of readiness or non-readiness for 2010 in the various provinces.

Levels of non-readiness for 2010



Clearly, stakeholders believe there are major challenges on the road to 2010 and beyond. While all provinces were cause for concern, the Eastern Cape, Free State, Mpumalanga and KwaZulu-Natal were seen as presenting the most serious challenges. (Note that these interviews were conducted in 2007.)

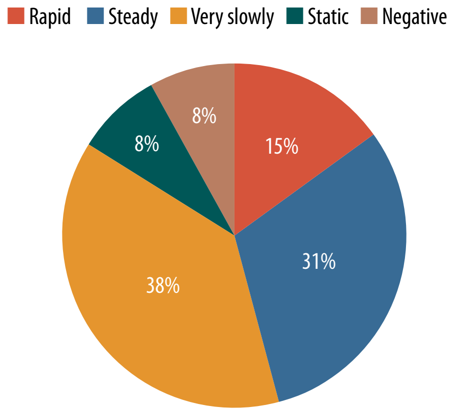
Opportunities for emerging SMMEs

Stakeholders also gave their perceptions of opportunities for emerging SMMEs. These included:

- shortages of bed and breakfast accommodation in peak periods, or when large conferences are held;
- the lack of good restaurants in many areas;
- the lack of suitable pubs and taverns in some areas;
- the lack of good musical and artistic performances in all provinces;
- a lack of good quality night spots in all provinces;
- a general weakness in the quality of craft, curio, and memento outlets in all provinces;
- the same weakness in the quality and frequency of traditional or folk music performances in all provinces;
- too few pavement cafes and too few stalls selling tourism products in all areas;
- less than optimally developed heritage, historical, and political sites countrywide.

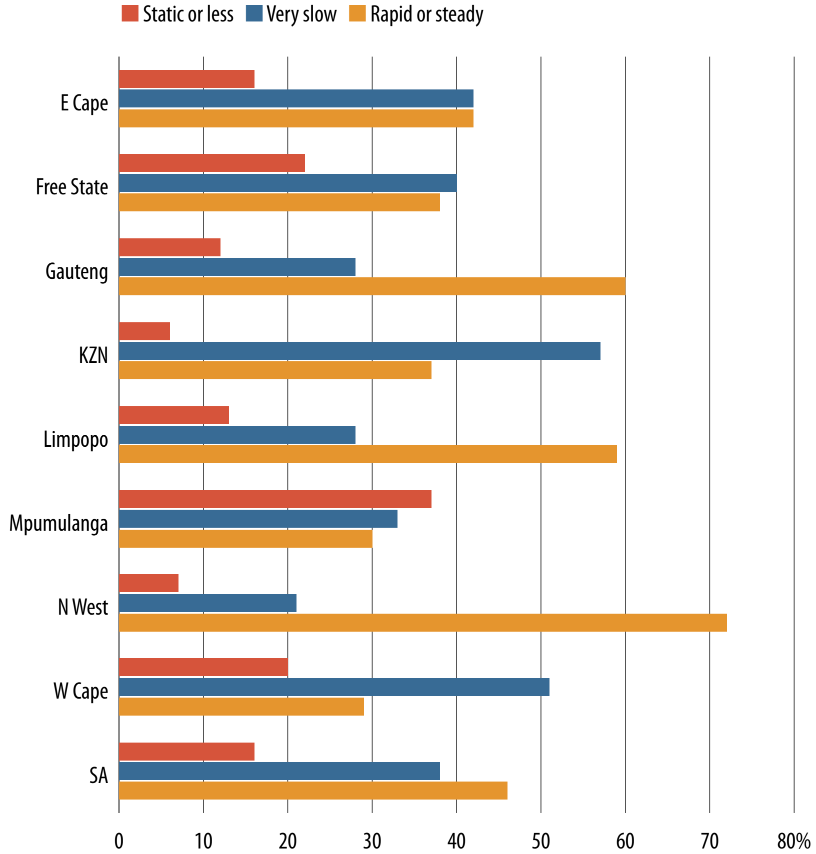
Given appropriate support, emerging entrepreneurs should be able to respond to these challenges.

National growth of tourism HDEs



Most stakeholders believe tourism HDEs are growing slowly, thus pointing to a major challenge in this respect.

Growth of tourism HDEs by province



The relatively positive profiles in Gauteng and North West may be due to the concentration of demand in Gauteng, which also impacts on tourism areas from Hartebeespoort to Rustenburg in North West. Problems of slow growth are perceived to exist in the Western Cape, Mpumalanga and KwaZulu-Natal, in which competition from established enterprises is very strong. According to stakeholders, the main reasons for the slow growth of HDEs are:

- inadequate exposure of previously disadvantaged entrepreneurs to the tourism industry;
- a lack of experience and skills, including business, technical and management skills;

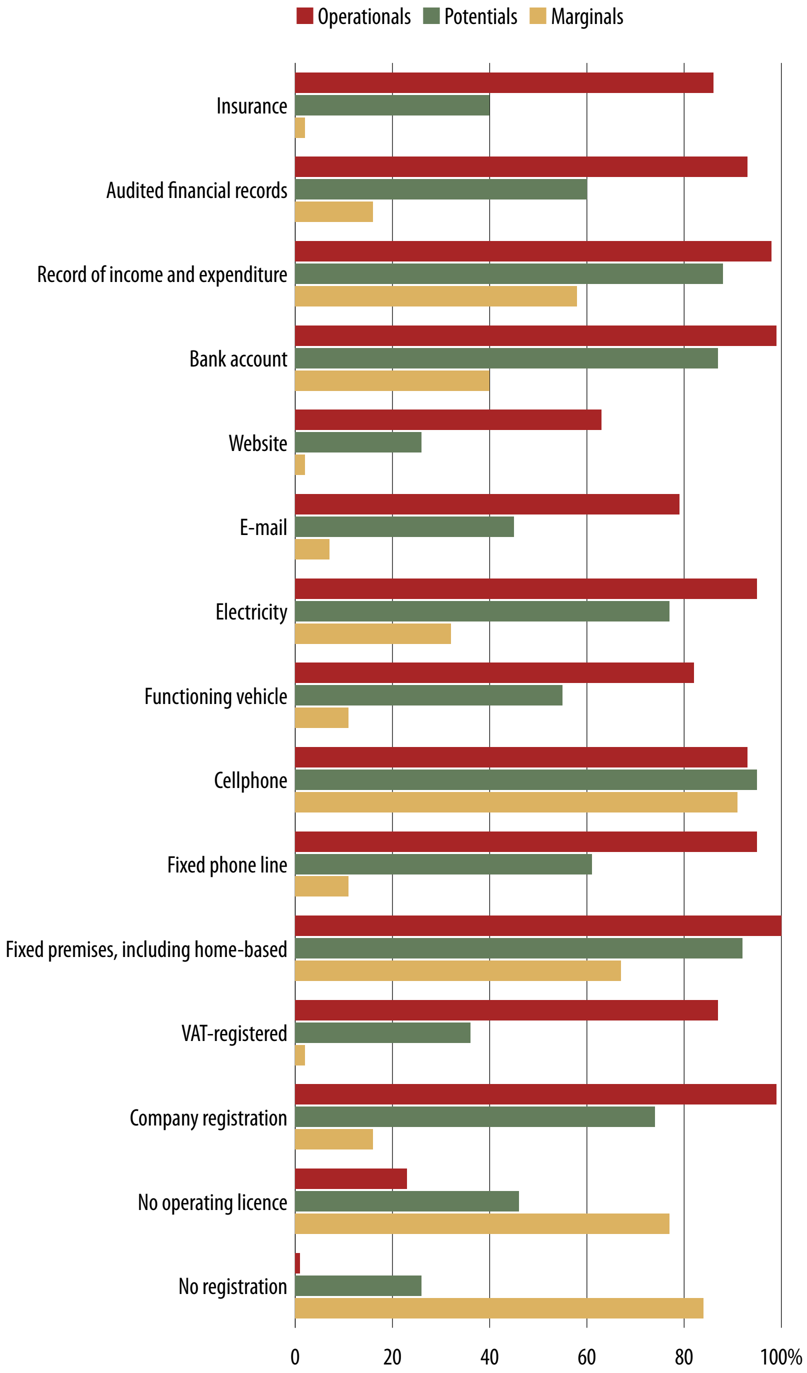
- limited business support and mentoring;
- a lack of finance and the skills needed to access finance;
- high levels of crime;
- tourism products are not diverse enough or sufficiently developed;
- poor promotion of lesser known tourism areas and towns;
- domestic tourists lack interest in visiting townships, and do not use tour operators;
- poor packaging of tourism routes;
- poor linkages between HDEs and the established tourism sector;
- tourism investment too heavily confined to major cities;
- poor levels and quality of education;
- a lack of incentives for private sector investment; and
- poor implementation of government plans.

THE DEVELOPMENT CHALLENGE

This section deals with aspects of the survey findings which point to the challenges of development faced by tourism SMMEs.

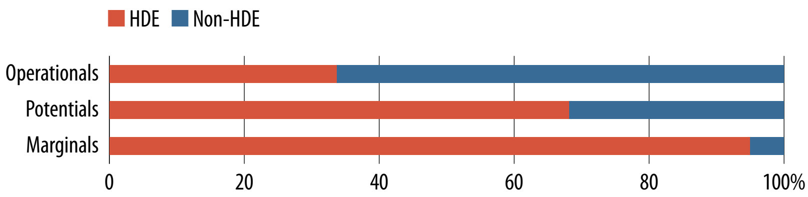
Registration or non-registration provides a basic distinction between established and non-established enterprises. Very small enterprises are tempted to avoid registration and compliance with regulations because this requires time, effort, and money in terms of fees and sometimes legal assistance. Hence there are large contrasts in this respect between Potentials and Operationals, which are also mirrored in levels of business equipment and resources.

Formal status and operating resources

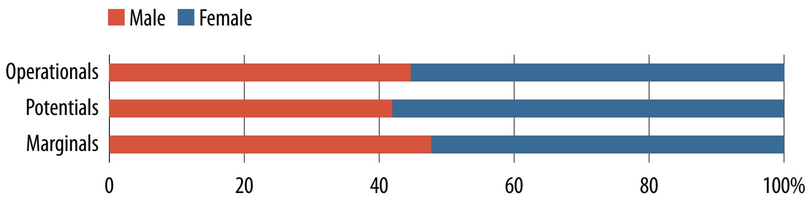


Both Operationals and Potentials give cause for concern. While almost all Operationals are registered as business entities, a significant number do not have websites, e-mail, or functioning vehicles. Almost a quarter of Potentials are not registered as companies, two thirds are not VAT-registered, only 60% keep audited financial records, and many lack important operating resources.

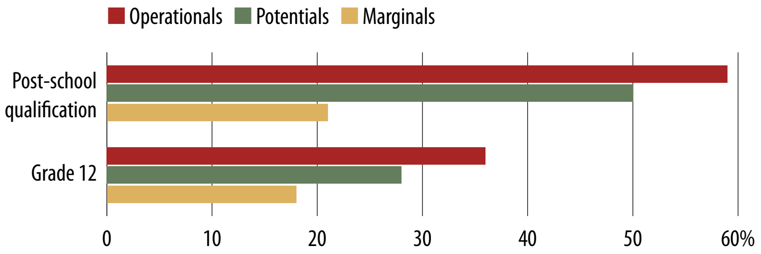
HDE status



Ownership by gender



Educational qualifications

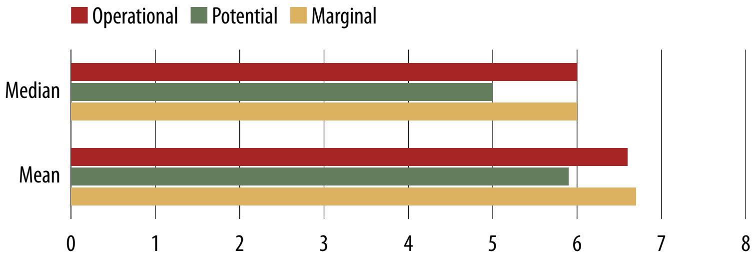


These figures show that there is an inverse relationship between the level of emerging enterprise and HDE status. However, women are well represented among owners. Also, owners of both Operationals and Potentials are relatively well qualified, which provides a sound foundation for further development.

Business age and development

It is frequently assumed that the age of a business is linked to its level of development, but the figure below suggests that this is not always the case. The differences in length of operation between the three types of businesses are not significant. Many small enterprises quickly find an optimum size and level of complexity, and thereafter time seems to make little difference.

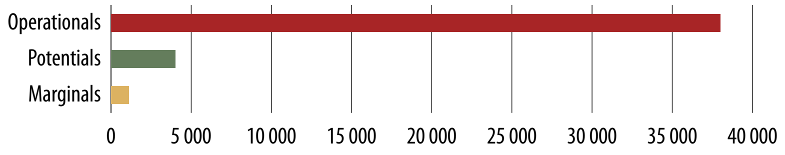
Years in operation



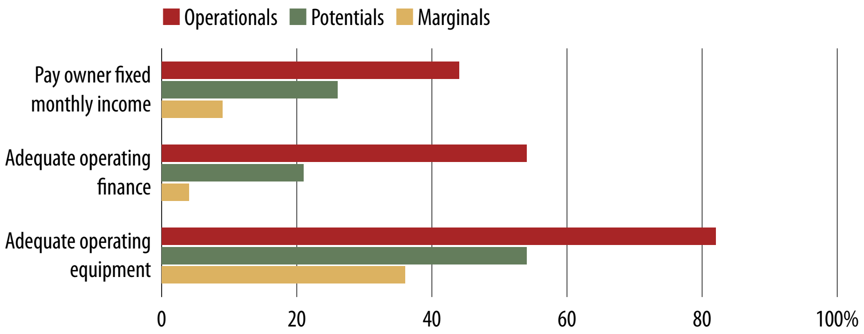
Other indicators

The core of the development challenge is to increase turnover – and profits, if possible – but some of the smaller emerging SMMEs face even more basic challenges.

Median monthly turnover (R)



Equipment and finance



Note: The percentage of Operationals paying their owners a fixed monthly income is relatively low because many entrepreneurs in this category pay themselves more when revenue allows.

Only about a quarter of Potentials generate enough revenue to pay their owners a regular income. The figure for Operationals does not seem much higher, but these owners may take home larger rather than smaller amounts when possible.

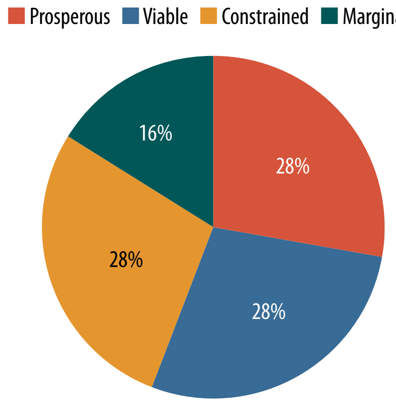
The reason for this constraint is found in the turnovers. Taking the medians to avoid distortion by a few very large turnovers, the figures show that Marginals, Potentials, and Operationals are typically taking in about R1 100, R4 000 and R38 000 a month respectively. After covering costs, Marginals are barely surviving, and Potentials are clearing R2 000 to R2 500 a month at best – slightly below the level of a typical semi-skilled wage. Potentials are therefore significantly constrained in terms of profitability and the resources required for expansion.

Operationals' median annual turnover of about R450 000 may mean a net profit of half that amount at most. Therefore, even these most successful emerging tourism businesses are not enriching their owners. Their typical take-home incomes are those of a middle-level civil servant. Significant incomes are limited to the top third of Operationals.

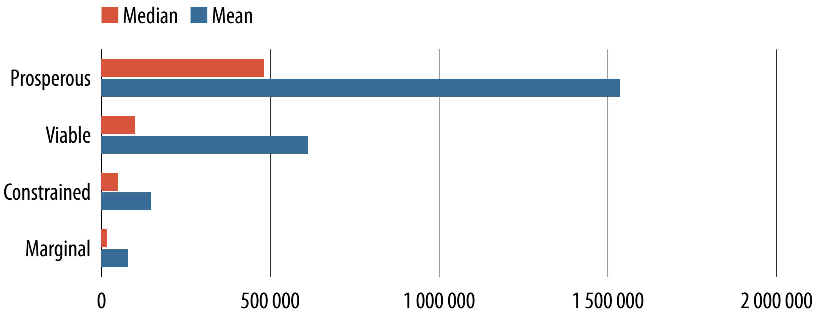
BUSINESS SUCCESS

In order to provide further insights into development challenges, emerging SMMEs were also classified into four Business Success categories, namely Prosperous, Viable, Constrained, and Marginal.

SMMEs in Business Success categories

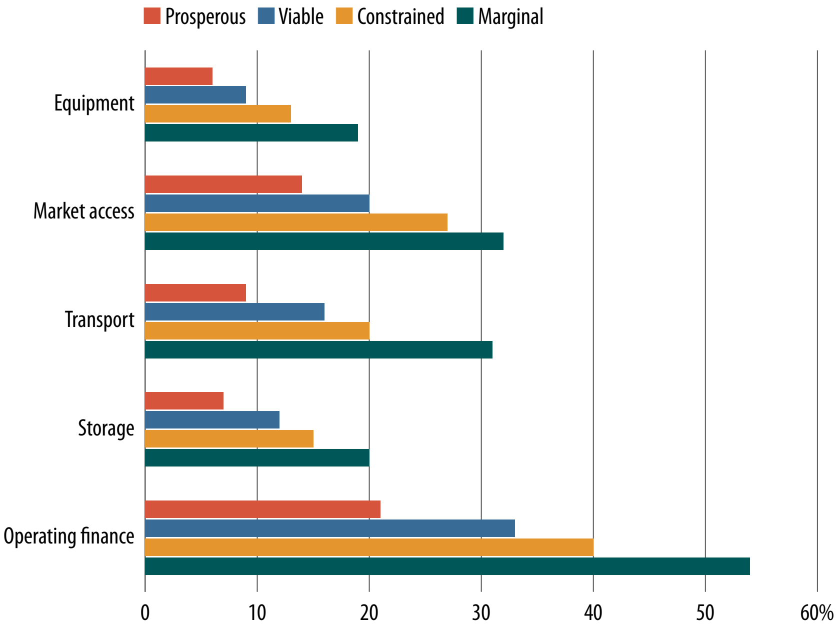


Annual turnovers by Business Success categories (2006)



This shows once again that the range of incomes among emerging tourism SMMEs is very wide, with a 20:1 ratio between the top and bottom categories.

Major problems experienced with various aspects of business



This confirms that emerging SMMEs in all categories experience significant problems, and that operating finance is a particular constraint.

CHARACTERISTICS ASSOCIATED WITH SUCCESS OR FAILURE

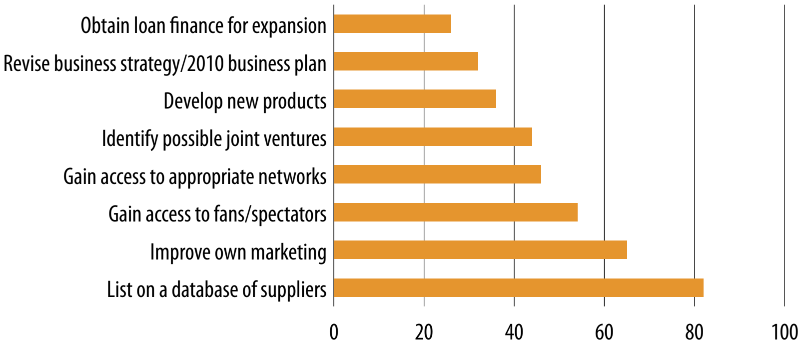
The survey data was also analysed to identify features associated with business success or otherwise.

SUCCESS	FAILURE
Well-resourced operations	Lack of transport and operating equipment
Licensed, registered and insured operations	Lack of resources / finance
Owner previously employed in supervisory or executive position	Owner previously employed in unskilled position
Owner previously employed for relatively lengthy period	Owner previously unemployed or employed for short periods
Finalised or implemented marketing plans	Rudimentary or no marketing plans
Marketing or advertising in media or formal tourism networks	No marketing material
Owner able to draw fixed monthly income	Owner draws as much income from business as possible
Owner delegates responsibility to senior staff, not family or friends	Owner delegates responsibility to family and friends
No expectation of external support	Owner expects external support or assistance
Grade 12 or tertiary education	Low levels of education
Prior market research	Little or no market research
Intrinsic interest in product	Business started because of lack of money or job
Management, technical and financial skills	Owner believes he / she lacks basic business skills
No perceived need for training or additional skills except in respect of staff relations	Perceived need for additional skills
Concern with quality of product	Quality of product not first priority
Products affordable, varied, value for money	Products lack variety
Well located in relation to markets	Poor market access
Member of business or tourism organisations	Business operates in isolation

THE VIEWS OF EMERGING ENTREPRENEURS

Emerging entrepreneurs themselves were asked what their needs were and what they believed they had to do to take advantage of the opportunities offered by 2010.

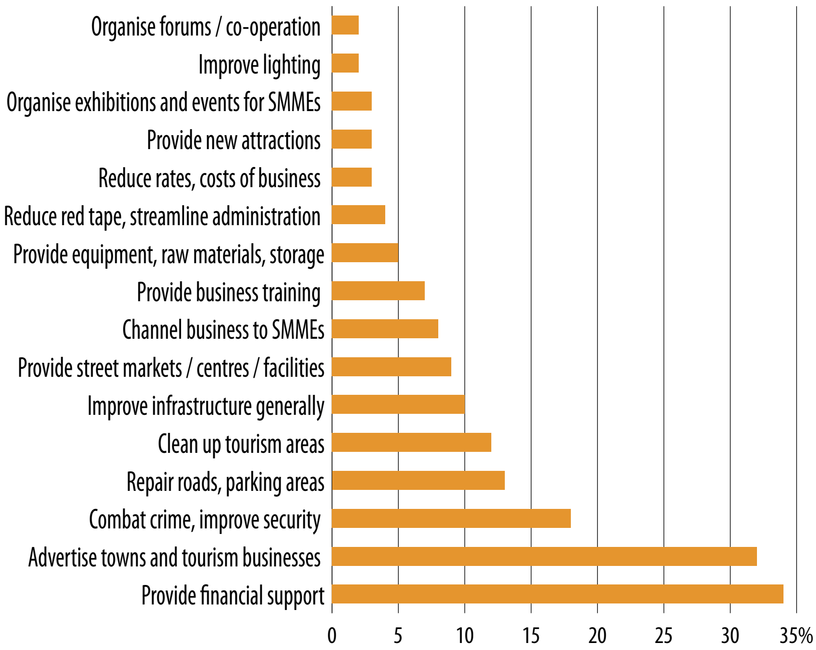
Steps needed to take advantage of opportunities in 2010



Notably, longer-term steps are low on the agenda, and training is missing completely. This demonstrates that there is not enough time left before 2010 for these sorts of initiatives. In this respect, the responses of SMMEs are very rational.

Entrepreneurs were also asked how they thought the authorities should respond to their needs.

Useful forms of official intervention and support



These results reflect a widespread desire for and expectation of official financial support, particularly among less successful entrepreneurs. However, they also contain constructive requests for better publicity for towns or zones, improved infrastructure, improved crime control, attention to the appearance of localities, better signage, and better access roads.

An interesting suggestion is that the authorities should provide street markets and micro business resource centres to facilitate access to higher-value markets. Street markets attract tourists in many successful tourist cities in the world.

Finally, these responses show that besides their legitimate needs and less constructive expectations of handouts, emerging entrepreneurs share the concerns of all tourism stakeholders about crime and grime, signage, the urban environment close to tourism sites, and infrastructure.

DEVELOPMENT ASSISTANCE

The survey data was also analysed to determine the efficacy of various forms of development assistance. The results show that:

- state assistance such as subsidised loans has not been effective;
- basic training and short training courses in business skills such as bookkeeping or management may be helpful, but have not made a major contribution to successful start-ups; and
- successful operators benefit from non-basic training, but do not need basic training.

The overall lesson is that training can be helpful, but does not create successful entrepreneurs. Besides external inputs, business success requires discipline, independence, accountability, a concern about quality, and a proactive approach to

STRATEGIES AND TIME FRAMES

All the enterprises in the survey sample are already active in the tourism market, and all or most will continue to operate during 2010 and beyond. The challenge is to help them to improve their products and operations, thus allowing them to derive the greatest possible benefit from 2010 and beyond.

They can be assisted in five basic ways:

- where appropriate, help them to formalise their operations;
- improve their operating efficiency;
- improve their products (goods and services);
- improve their branding and marketing; and
- improve their market access, among others by improving their linkages with established tourism networks.

Not all forms of assistance are equally relevant to all SMMEs. Instead, development and tourism agencies will need to devise appropriate development strategies for different categories of emerging SMMEs, and even for different subsectors. For example:

Operationals are already functioning relatively well, and almost all are registered. As such, they largely need largely assistance aimed at refining their products, branding and marketing.

Potentials in the arts and crafts subsector can be expected to actively participate in the markets surrounding 2010 and beyond, and even step up their efforts. Many of them are informal enterprises, but access to tourists will not hinge on registration. In this instance, helping them to improve or refine their products and sales strategies will be relevant.

The situation is very different in the accommodation subsector. Most Potential establishments are unregistered, and have not been graded by the TGCSA. MATCH Events Services, the FIFA agency managing accommodation for 2010, requires all establishments on its database to be graded, and the TGCSA will not grade establishments run by informal (or unregistered) enterprises. Therefore, helping Potentials active in this subsector to register as close corporations or companies and acquire a star grading is an overriding priority.

solving problems. Therefore, beneficiaries of development programmes should be carefully selected.

CONCLUSIONS FROM EXPERTS' WORKSHOPS

The experts' workshops contributed a range of insights about development strategy. These include the following:

- Standardised approaches to SMME development are often ineffective.
- Too little thought is given to the issue of criteria for providing assistance.
- Training does not have a major impact on business success. It is most effective if it is tailored to the mode of operation of a particular entrepreneur. This includes informal bookkeeping and money-handling procedures.

- Mentoring is perhaps the most effective business development tool, provided the mentor is a professional with considerable practical experience.
- Business plans can be useful, but have to be developed in close consultation with entrepreneurs.

MAIN FINDINGS

Emerging tourism SMMEs make a modest but significant contribution to South African tourism. Their ability to create jobs is limited; instead, their main value lies in the fact that they add variety to tourism goods and services, and act as seedbeds for the tourism sector as a whole.

Emerging enterprises present major **challenges**:

- They are strong in some subsectors, but weak in others. Similarly, they provide a wide variety of products, but many of these are of poor quality.
- They display huge disparities in income and resources. While the most successful enterprises are relatively stable, many others are struggling to survive. There are also very large operative inequalities between HDEs and non-HDEs.
- Many emerging tourism SMMEs are based in marginal areas, out of the tourism mainstream. As a result, they lack linkages with established travel, tourism, and booking agencies. Also, given their resource constraints, many do not market or promote themselves effectively.

However, emerging tourism SMMEs also display a number of **strengths**, and present some exciting **opportunities**:

- Notwithstanding the weaker subsectors, emerging enterprises offer an impressive range of tourism goods and services. This provides a sound foundation for development.
- Gaps and shortages in the overall range of tourism products provide significant opportunities for emerging SMMEs.
- Women are well represented among owners, and many owners and operators are well educated. Also, many owners and operators are very dedicated.

RECOMMENDATIONS

- Training must be tailored to the operations and day-to-day problems of particular emerging SMMEs.
- SMMEs should be carefully analysed before deciding on how they should be assisted.
- Development agencies should ensure that training courses, mentoring, marketing support, and aftercare are appropriate to the informal methods used by small and micro enterprises.
- Small business development agencies could join forces to develop effective criteria for selecting emerging entrepreneurs suitable for assistance.
- They could also collaborate on training appropriate trainers, mentors, and consultants.
- Steps should be taken to improve the general operating environment of emerging tourism SMMEs, and strengthen the markets in which they operate. Development agencies need to collaborate on this. Such a programme could not be implemented in time for 2010, and would have to be undertaken in the longer term.

- However, development agencies should take immediate steps to improve the linkages of emerging SMMEs with established tourism networks.
- Street markets, business hives, and resources centres could be established in cities and other major tourism zones. Cluster strategies should be considered.
- The development of emerging tourism enterprises should be undertaken by private sector agencies and NGOs – as well as public–private partnerships – rather than only the public sector.
- The development of HDEs should be fast-tracked.

CONCLUSION

Tourism is a complex sector, and requires greater skills and other inputs than most other service sectors. As a result, many emerging tourism SMMEs are struggling against considerable odds. If they can be assisted to overcome these obstacles, they have the potential to contribute far more to tourism and the South African economy as a whole.

www.tep.co.za

environment & tourism

Department: Environmental Affairs and Tourism
REPUBLIC OF SOUTH AFRICA

TEP

BUSINESS TRUST

Together, we make a difference.

Tourism Enterprise Partnership